Mineral Resources International Limited

annual report 1970

MINERAL RESOURCES INTERNATIONAL LIMITED

ANNUAL REPORT TO SHAREHOLDERS

OFFICERS

C. FRANKLIN AGAR	President, Calgary, Alberta
JACK R. MCBRAYER	Vice-President, Longview, Texas
VICTOR F. BURSTALL	Secretary, Calgary, Alberta

DIRECTORS

C. FRANKLIN AGAR	Calgary, Alberta
JOHN H. BROWN	Toronto, Ontario
VICTOR F. BURSTALL	Calgary, Alberta
WILLIAM A. CLARKE	Oakville, Ontario
JOHN S. GAIRDNER	Oakville, Ontario
J. HOWARD HAWKE	Toronto, Ontario
JACK R. MCBRAYER	Longview, Texas
V.V. JACOMINI	Houston, Texas

AUDITORS

Touche, Ross & Co.	Calgary, Alberta

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company	Toronto, Montreal, Winnipeg Calgary, and Vancouver

HEAD OFFICE

P.O. Box 48
Toronto-Dominion Centre
Toronto 111, Ontario

OPERATING OFFICE

One Calgary Place, Ground Floor,
330 - 5th Avenue S.W.
Calgary, Alberta, Canada

Telephone: 403/263-7930

REPORT OF THE DIRECTORS

The Directors present the 1970 Annual Report of the Company, including audited financial statements for the year ended December 31, 1970, and a review of developments during the year 1970 and during the subsequent period to date of this Report.

REORGANIZATION AND CHANGE OF NAME:

In an Information Circular and Explanatory Statement dated July 27, 1970, shareholders were informed of and asked to support a plan of reorganization as a first step to restoring the Company's fortunes. The reorganization plan consisted of the exchange of the Company's 6% Sinking Fund Debentures, 7% Convertible Subordinated Debentures and certain other indebtedness for shares in the capital of the Company, the consolidation of the Company's shares on the basis of one (1) new share for every ten (10) old shares, the increase of its authorized capital and change of its name to its present name.

Having achieved this reorganization, your management has embarked upon a close review of the Company's interests in sulphur deposits, oil, gas and helium wells, and mining properties with the objectives of cutting operating and property holding costs and achieving development and utilization of assets where possible. Concurrently, your Company has been attempting to negotiate new financing to be used for operating and growth capital.

As a step toward future growth, the Company has acquired an interest in a large reserve of high grade magnesite in British Columbia which is discussed more fully under the heading "Canadian Operations - Brussilof Project".

GUATEMALA:

The Company continues to hold its 50% interest in Azufres de Guatemala Limitada which in turn holds an 11.7 square kilometre exploitation licence covering a proven sulphur deposit located some 78 kilometres from Guatemala City.

The sulphur deposit which grades about 65% elemental sulphur occurs as sediment in Lake Ixpaco. In 1966 and 1967, Azufres de Guatemala Limitada drilled and sampled the deposit and in 1967 constructed, on the lake shore, a Motosi flotation plant designed to produce 60 tons per day of sulphur. Operation of the plant proved to be unsuccessful with sulphur recovery and efficiency being at unacceptable levels.

Lake Ixpaco has been drained, except for a small central area, to expose the sulphur deposits. Close spaced grid pattern drilling indicates the deposit contains some 500,000 tons of sulphur. Although the current oversupply of sulphur in world markets and the resultant depressed prices preclude development of this deposit to supply export sulphur markets, it appears it can be developed to supply the five nation Central American common market because of the special status it will enjoy with regard to tariff protection and other economic incentives as an indigenous Guatemalan project. In addition, on the basis of discussions with various financial and governmental agencies it appears that development of the sulphur deposit could provide the base of a vertically integrated fertilizer production and sales project.

Accordingly, Azufres de Guatemala has undertaken negotiations with potential joint venture partners who could supply the financing.

Over the past year, Azufres de Guatemala has sold certain surplus equipment to provide operating funds and Mineral Resources International Limited has advanced an additional $63,500. As a cost reducing measure, extensive staff reductions have been carried out which will result in only nominal costs in the future for maintaining Azufres de Guatemala Limitada as a viable entity until development of the sulphur deposit can be arranged.

MEXICO:

Your Company continues to hold its 34% interest in Azufres Nacionales Mexicanos, S.A. de C.V. (ANAMEX).

During 1967, 1968, and into 1969, ANAMEX conducted an extensive core drilling program on the company's Hornillas sulphur leases in the State of Veracruz, Mexico. This drilling resulted in establishing a reserve of approximately 9,500,000 tons of sulphur. The deposit ranges in depth from 200 to over 300 meters. The proven limits of this deposit have not been defined and the management of ANAMEX feel additional drilling will result in proving further reserves.

These reserves are located on the east flank of the Texistepec Dome. CEDI, a subsidiary of Texas Gulf Sulphur, whose lease covers a contiguous portion of the structure, has sulphur reserves reported in excess of 15,000,000 tons and owns a partially constructed Frasch type sulphur recovery plant with a capacity in the order of 600,000 tons per year. During 1969, discussions were undertaken with a view to unitizing the entire structure. This remains as the most efficient means of producing the sulphur to avoid duplication of plant facilities and operating cost.

The current depressed export sulphur market has had a severe impact on the operations of the Mexican Frasch sulphur producers. Consequently, for the time being with the concurrence of the majority shareholder in ANAMEX, Fomento Minera, the Federal Mexican Mining Department, the Hornillas property is being maintained at a minimum cost.

Because of the Company's substantial investment in ANAMEX and the potential value of the Hornillas sulphur deposit, your management is exploring ways and means of achieving some recovery of investment or current utilization of this investment. To this end, discussions have and are taking place regarding the possibility of selling the Company's interest in ANAMEX.

During 1967 and 1968 La Compania Minera "La Ninita" drilled and sampled various copper shows on its claims in the State of Durango, Mexico. The evaluation of these results was not encouraging and the claims were allowed to elapse. The Company has written off its 34% interest in La Compania Minera "La Ninita".

In 1970, the Company entered into an agreement whereby it was granted an option, exercisable on or before July 6, 1971, to acquire a 49% interest in Minera La Dicha S.A. which holds exploitation concessions and exploration permits covering an extensive copper gossan, and a series of old mine workings. Following sampling of the old mine workings and surface outcrops, and diamond drilling along some 1,000 feet of strike of the structure, the Company's management determined that the grade and distribution of mineralization did not warrant the Company's exercising the option to acquire a 49% interest in Minera La Dicha S.A. It was not possible to negotiate satisfactory modifications to the option agreement and the Company's investment in this venture has been written off.

UNITED STATES SUBSIDIARIES:

The Company has two wholly owned subsidiary companies in the U.S.; International Helium, Inc. and Nevada Oil & Helium Co. International Helium, Inc. in turn owns 97% of Apache Oil & Helium Corporation.

These three companies have interests in oil, gas and helium wells in Texas, Louisiana, Missouri, Arizona, and California. The most important single interest is Apache Oil & Helium Corporation's 25% net profits interest in the Pinta Dome helium property which is operated by Kerr-McGee in Apache County, Arizona. Over the past six years, production has consistently averaged approximately 600,000 Mcf of raw gas per year which, under present U.S. helium prices, generates some $34,000 of net income to Apache per year.

The working interest in many oil and gas wells owned or operated by International Helium, Inc. and Nevada Oil & Helium Co. are composed of individually owned small fractional interests. Also, the royalty interests in many of these wells and units are represented by many small royalty owners. These complex divisions of interests result in complicated accounting and reporting procedures. Management of these companies has instigated a streamlining of operations, aimed at reducing costs, through the sale of marginal interests and the purchase and consolidation of interests in the more profitable leases. Steps are also being taken to amalgamate the three companies.

On a consolidated basis, the current projection of net cash flow from these companies is approximately \$68,000 per year. As mentioned, by consolidation and the use of loss forward, this projected cash flow will be protected from U.S. Federal taxation, thus making the entire amount available for growth and expansion of the subsidiary companies. Management is currently negotiating with potential joint venture partners. These negotiations would allow the Company to acquire new interests in oil and gas production on favourable terms of the Company.

CANADIAN OPERATIONS:

Helium

Pursuant to an agreement dated May 29, 1970, the Company sold its Pembina Field producing oil properties for \$400,000. These funds were used to retire approximately \$275,000 of bank production loans with the balance being used for general company purposes.

As a result of a geological review of the Company's properties and industry activity in the general area, and to reduce cost, the Company surrendered 39,689 acres of undrilled helium leases.

The Company still holds under a farmout agreement with Texaco Exploration its main property, the PH-1 lease, covering 19,360 acres. Also your company still holds lease PH-24 covering an additional 2,877 acres of potentially productive helium bearing formation. These helium leases are located in the Swift Current area of Saskatchewan. There are two tapped inert gas wells with absolute open flow potentials of 50 million cubic feet per day each located on the PH-1 lease. The Company's consultant estimates that the structure these wells tapped contains some 70 billion cubic feet of gas with a content of 96% nitrogen and 1.3% helium. Engineering feasibility studies and plant design work indicate that a plant capable of producing annually 40 million cubic feet of gaseous Grade "A" helium and 4,000 tons of liquid nitrogen, could be supplied by the two capped gas wells.

Recent developments in the transportation of liquid helium suggest that the production of liquid rather than gaseous helium would enable the Company to overcome the distance barrier to allow sales to Japan and in Europe. The company is seeking market outlets which would justify construction of the required production process facilities.

Brussilof Project

Late in 1970, the Company entered into purchase and option agreements whereby it acquired an interest, subject to approval by regulatory bodies, in a major high-grade magnesite deposit covered by 344 claims near Radium Hot Springs in British Columbia. As a result of negotiations, now near completion, to amalgamate various interests in the project, your management estimates that the Company's share in the project will be eleven percent. The President of the Company is the President of Brussilof Resources Limited, a participant in the project through which the Company has acquired its interest in the project.

On the basis of field work and market investigations, the project consultants in a recently completed feasibility study have concluded that the volume and grade of reserves will justify the development of the project to produce a high-grade of dead-burned magnesite. This product would be obtained by mining, crushing and grinding the raw magnesite and passing it through a high temperature kiln to drive off carbon dioxide leaving a stable form of magnesium oxide. There is a strong and growing world market for such material derived mainly from its use in the manufacture of high quality refractory bricks.

The feasibility report indicates that in the drilled portion of the deposit, reserves can be classified as 14,800,000 tons proven and an additional 11,800,000 tons probable.

The operators of the project plan to proceed with certain additional field and pilot plant work related to project design. Negotiations are underway to obtain firm marketing contracts and the financing required to put the project into production.

The costs to the Company of its interest in this project under its acquisition agreements are $208,000 and 143,000 common shares. Of these amounts $70,000 has been paid and the balance is due before the end of 1971.

August 5, 1971

On behalf of the Board of Directors

C. F. Agar

President

AUDITORS' REPORT

The Shareholders

Mineral Resources International Limited

We have examined the consolidated balance sheet of Mineral Resources International Limited (formerly The International Helium Company Limited) and its subsidiary companies as at December 31, 1970 and the consolidated statements of income and deficit, and source and application of funds for the year then ended. For Mineral Resources International Limited, our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. With respect to the subsidiary companies for which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to accept for purposes of consolidation the reports of the other auditors.

The ultimate value of the Company's investments in Mexico, Guatemala and Saskatchewan is dependent upon commencement of commercial production on the related sulphur mining concessions and helium properties which in turn is subject to the outcome of the matters referred to in Notes 3 and 5 to the consolidated financial statements. The manner in which these matters will be resolved and the related effect on the financial position of the Company cannot be determined at this time.

Subject to the uncertainty as to the ultimate value of the Company's investments, as referred to above, in our opinion these financial statements present fairly the consolidated financial position of the companies as at December 31, 1970 and the results of their operations and source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Company
Chartered Accountants.

Calgary, Alberta
June 25, 1971

MINERAL RESOURCES INTERNATIONAL LIMITED AND ITS SUBSIDIARY COMPANIES
(Incorporated under the laws of the Province of Ontario)

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1970

ASSETS

	1970	1969
CURRENT		
Cash	$ 57,131	$ 161,882
Accounts receivable	26,213	67,839
Prepaid expenses	2,948	9,985
	86,292	239,706
INVESTMENTS		
Brussilof Resources Limited (Note 2)	49,000	—
Mexico and Guatemala (Note 3)	13,543,527	13,084,898
	13,592,527	13,084,898
PROPERTY, PLANT AND EQUIPMENT (Note 4)		
Interest in leases, well costs and equipment net of accumulated depletion and depreciation	677,446	886,884
DEFERRED		
Development and other expenditures-helium leases (Note 5)	3,069,696	2,934,361
Discount on debentures, less amortization	—	77,870
Long-term debt costs, less amortization	—	161,561
	3,069,696	3,173,792
	$17,425,961	$17,385,280

MINERAL RESOURCES INTERNATIONAL LIMITED AND ITS SUBSIDIARY COMPANIES
(Incorporated under the laws of the Province of Ontario)

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1970

LIABILITIES

	1970	1969
CURRENT		
Accounts payable and accrued liabilities	$ 97,651	$ 557,821
Loans from shareholders (Note 6 & 7)	234,586	4,259,791
Bank production loans, secured, current portion	—	56,239
U.S. income taxes payable	—	18,236
Notes payable, current portion	—	4,579
Loans payable, other (Note 7)	—	184,284
Accrued interest payable (Note 7)	—	1,111,189
	332,237	6,192,139
LONG-TERM DEBT		
Bank production loans, secured, less current portion	—	219,097
6% sinking fund debentures (Note 7)	—	1,216,000
7% convertible subordinated debentures (Note 7)	—	2,885,000
	—	4,320,097
MINORITY SHAREHOLDERS' INTEREST in Apache Oil & Helium Corporation	16,079	30,460
Total liabilities	348,316	10,542,696
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 7)		
Authorized		
6,000,000 shares without par value		
Issued and fully paid	22,730,024	12,467,860
DEFICIT	(5,652,379)	(5,753,276)
CONTRIBUTED SURPLUS (Note 7)	—	128,000
	17,077,645	6,842,584
	$17,425,961	$17,385,280

Signed on behalf of the Board

W.A. Clarke, Director
C.F. Agar, Director

MINERAL RESOURCES INTERNATIONAL LIMITED AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1970

	1970	1969
Oil and gas sales	$ 153,929	$ 324,066
Lease operating expenses		
Production expense	47,257	103,759
Interest	13,118	24,829
	60,375	128,588
General overhead expenses	49,454	68,442
	109,829	197,030
Income from production before the undernoted items	44,100	127,036
Depreication and depletion	81,168	159,297
Amortization of long-term loan costs	19,538	5,076
Provision for U.S. income taxes	(357)	9,340
Provision for minority shareholders' interest in Apache Oil & Helium Corporation	(14,381)	9,427
	85,968	183,140
Less interest earned	3,172	13,986
	82,796	169,154
Loss for the year before extraordinary items	38,696	42,118
Extraordinary items		
Loss on sale of oil well equipment and lease costs written off (net)	—	408,326
Loss (gain) on disposal of fixed assets (Note 9)	(280,369)	8,268
Loss on disposal of investments (Note 9)	67,172	—
Write-down of oil and gas leases and related development expenditures to estimated net realizable value (Note 4)	—	1,103,526
Write-down of interest in helium leases to estimated present value of future production (Note 4)	—	491,521
Write-down of oil and gas leases and related equipment to estimated net realizable value (Note 4)	—	129,571
Claims and development expenditures written off (Note 9)	145,917	—
Loss on properties abandoned	67,007	—
Gain on foreign exchange	(11,320)	—
	(11,593)	2,141,212
NET LOSS FOR THE YEAR	27,103	2,183,330
Deficit January 1	5,753,276	3,569,946
Contributed surplus written off upon reorganization (Note 7)	(128,000)	—
Deficit December 31	$5,652,379	$5,753,276

MINERAL RESOURCES INTERNATIONAL LIMITED AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED DECEMBER 31, 1970

	1970	1969
Source of Funds		
From operations		
Charges to operations not requiring use of funds		
- Depreciation and depletion	$ 81,168	$ 159,297
- Amortization of long-term loan costs	19,538	5,076
- Minority shareholders' interest	(14,381)	9,427
- Extraordinary gains, losses and write-offs (Note 9)	(11,593)	2,141,212
	74,732	2,315,012
Net loss for the year	27,103	2,183,330
	47,629	131,682
Capital stock issued on conversion of debt (Note 7)	10,262,164	—
Proceeds on sale of equipment and leases	401,928	23,129
Foreign exchange gain	11,320	—
From working capital	—	1,431,864
	$10,723,041	$1,586,675
Application of Funds		
Advances to Mexico and Guatemala	$ 238,736	$ 985,043
Long-term debt converted to capital stock (Note 7)	4,101,000	—
Investment in Brussilof Resources Limited	49,000	—
Investment in shares of Compania Minera "La Ninita"	—	2,160
Purchase of minority shares of Apache Oil & Helium Corporation	—	195,250
Dividend payment to minority shareholders of Apache Oil & Helium Corporation	—	10,379
Purchase of equipment	—	1,426
Reduction of long-term debt	219,097	96,057
Purchase of 6% sinking fund debentures for cancellation	—	36,338
Deferred development and other expenditures, net of charges not requiring use of funds	408,720	260,022
To working capital	5,706,488	—
	$10,723,041	$1,586,675

MINERAL RESOURCES INTERNATIONAL LIMITED AND ITS SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1970

1. PRINCIPLES OF CONSOLIDATION AND ACCOUNTING

The consolidated financial statements include the accounts of the Company and its subsidiaries, Nevada Oil & Helium Co., International Helium, Inc. and Apache Oil & Helium Corporation (collectively called for the purposes of these notes "the Company").

Administrative and other expenses relating to the development of the Company's sulphur interests in Mexico and Guatemala are capitalized as part of the Company's overall investment in Mexico and Guatemala.

The helium activities in Canada are still in the development stages and the expenditures thereon are reflected, together with the related administrative expenses, in deferred development and other expenditures. If these properties are brought into commercial production, the related costs will be capitalized and amortized against production income or, if the properties are abandoned or otherwise disposed of, the related costs will be charged to income.

Oil and gas production and related expenses of the Company are reflected in the consolidated statement of income.

Assets and liabilities and income and expenses which are maintained in foreign currencies have been converted to Canadian funds on the following basis:

(i) Current assets and current liabilities at exchange rates in effect at December 31;

(ii) All non-current assets and liabilities at the rates prevailing when acquired or incurred; and

(iii) Income and expenses at the average rate for the year.

2. INVESTMENT IN BRUSSILOF RESOURCES LIMITED - $49,000

During the year, the Company acquired 39,300 shares of Brussilof Resources Limited for $39,000.

The Company has agreed to purchase 470,000 shares of Brussilof to be paid for as follows:

- $10,000 on December 15, 1970
- $20,000 by June 15, 1971
- $130,714 by December 15, 1971
- The transfer and assignment to the vendor of 142,850 fully-paid and non-assessable common shares of the Company within 30 days of obtaining approval of this agreement by the Board of Directors of the Company and by the Toronto Stock Exchange.

The first two payments have been made on the due dates.

In addition, the Company has been granted an option to purchase a further 15,700 shares of Brussilof for 93¢ a share, such option to be exercised on or before August 1, 1971.

3. INVESTMENTS IN MEXICO AND GUATEMALA - $13,543,527 (1969 - $13,084,898)

Share capital - $6,196,894

The Company's investments in share capital of companies in Mexico and Guatemala are summarized as follows:

Mexico

Azufres Nacionales Mexicanos, S.A. de C.V., 10,200 fully paid shares of 1,000 pesos each par value, representing a 34% interest

Operadora Anahuac, S.A. 340 shares of 25,000 pesos each par value, 50% paid, representing a 34% interest

Guatemala

Azufres de Guatemala Limitada, 50% share of 50,000 quetzales capital, fully paid.

The Mexican and Guatemalan companies were incorporated to develop sulphur concessions originally granted to the Company on issue of 3,282,418 old treasury shares to which a value of $1.50 per share was attributed. The Company's holdings were reorganized in 1967 and Azufres Nacionales Mexicanos, S.A. de C.V., was formed. Expenditures incurred to organize the predecessor Mexican companies were attributed to the cost of the new company.

The book value of these shares was determined as follows:

	1970	1969
Shares issued for sulphur concessions in Mexico and Guatemala	$4,923,627	$4,923,627
Reorganization costs, Azufres Nacionales Mexicanos, S.A. de C.V.	1,246,267	1,246,267
Capital contribution to Azufres de Guatemala Limitada	27,000	27,000
Share of Compania Minera "la Minata", at cost	—	64,832
	$6,196,894	$6,261,726

Advances receivable - $3,118,333

	1970	1969
Azufres Nacionales Mexicanos, S.A. de C.V.	$1,108,802	$1,108,802
Azufres de Guatemala Limitada	2,009,530	1,943,250
	$3,118,332	$3,052,052

The advances to Azufres Nacionales Mexicanos are repayable with interest at 7% per annum, such interest to first accrue from the date that company begins to operate at a profit. Repayment is to be made only from profits, and before payment of any dividends.

The advances to Azufres de Guatemala Limitada bear interest at 8% per annum, accruing from the date the funds are advanced. Repayment is to be made only from profits before payments of dividends or other distributions to the partners. Repayment is subject to registration and approval of the Guatemalan Exchange Control; however, the majority of these advances are not registered at this time.

Expenditures on behalf of Azufres de Guatemala Limitada - $1,581,474 (1969 - $1,421,451)

These expenditures relate to development costs of Guatemalan mining concessions and certain equipment, development and operating costs of Azufres de Guatemala Limitada. Repayment (other than by distribution of profits) is subject to registration and approval of the Guatemalan Exchange Control. The Company has been advised that registration cannot be effected on the majority of expenditures included in this balance.

Exploration and development expenses - $256,320 (1969 - $250,535)

These expenses relate to various properties in Mexico and include preliminary investigation, exploration expenses, engineering fees, legal and other expenses.

Deferred expenses - Mexico and Guatemala

	Balance December 31, 1969	Transactions during the year	Balance December 31,1970
Management salaries	$ 218,747	$ 20,891	$ 239,638
Professional services	80,742	1,676	82,418
Travelling	210,224	11,721	221,945
Office and accounting	58,744	18,150	76,894
Interest and other financial expenses	618,763	79,334	698,097
Debenture interest	934,239	68,588	1,002,827
Amortization of debenture discount	49,656	77,870	127,526
Amortization of debenture financing expenses	86,885	142,023	228,908
Equipment	36,072	—	36,072
Engineering and consulting fees	129,795	—	129,795
	2,423,867	420,253	2,844,120
Less			
Interest income	297,071	128,880	425,951
Gain on purchase of debentures for cancellation	27,662	—	27,662
	324,733	128,880	453,613
	$2,099,134	$ 291,373	$2,390,507

In the opinion of management, which is based on reports submitted by geologists, the sulphur mining concessions in Mexico and Guatemala have sufficient recoverable sulphur reserves to warrant commercial production. Commencement of such production is subject to, among other things, approval by the majority of the shareholders of the respective companies and financing and building suitable plants. Commencement of production on the properties of Azufres Nacionales Mexicanos, S.A. de C.V. has been suspended pending improvement of world sulphur markets and the properties are being carried on a maintenance basis. Commencement of production of the property of Azufres de Guatemala Limitada is also subject to developing a suitable extraction process or alternative means of producing and distributing sulphur. This property is also being carried on a maintenance basis.

Guatemalan foreign exchange restrictions

Under present Guatemalan exchange control regulations, loan repayments out of profits are restricted to 15% per annum of the total investment for five years within any decade and 5% per annum for an additional five year profit.

4. PROPERTY, PLANT AND EQUIPMENT - $677,446

Producing properties are summarized as follows:

	1970	1969
(i) Canada		
Intangible well costs, oil and gas	$ —	$ 362,689
Well equipment, oil and gas, at cost	—	173,387
Less accumulated depletion and depreciation	—	(431,652)
	—	104,424
United States		
(ii) Net profit interest in helium leases	596,579	1,145,072
Less		
Accumulated depletion and depreciation	(159,922)	(194,551)
Write down to estimated present value of future production	—	(491,521)
	436,657	459,000
(iii) Oil and gas lease costs and well equipment	762,577	878,104
Less		
Accumulated depletion and depreciation	(567,338)	(476,373)
Write down to estimated net realizable value	—	(129,571)
	195,239	272,160
(iv) Oil and gas lease costs and related well costs	154,530	1,314,416
Less		
Accumulated depletion and depreciation	(108,980)	(103,468)
Write down to estimated net realizable value	—	(1,159,648)
	45,550	51,300
	$ 677,446	$ 886,884

(i) The Canadian property was sold during 1970. (See Note 9 for details of the sale.)

(ii) The net profit interest in helium leases in the United States represents a 25% interest in certain leases in Arizona. This lease interest was originally acquired by issuing 1,000,000 old shares of the Company to which a value of $1 per share was attributed. Since acquisition, costs relating to the lease interests were capitalized and the excess of the cost of the portion of the shares in Apache Oil & Helium Corporation over the Company's portion of the equity acquired at various dates was attributed to the lease interest. During the latter part of 1969 management reviewed the remaining helium reserves attributable to the leases and estimated that the Company's portion of the present value of future production would be approximately $459,000. Accordingly, in 1969 the net book value of the lease interest and related costs was written down by $491,521 to the above balance.

(iii) The oil and gas lease costs and well equipment in the United States are located in Arkansas, Louisiana and Texas. During the latter part of 1969 management reviewed the leases and disposed of unproductive or marginally productive leases. Accordingly, in 1969 leases and related costs were written down to an estimated realizable value of $272,160 resulting in a write off of $129,571.

(iv) These oil and gas leases are located in Missouri and California. During the latter part of 1969 management reviewed the existing leases and disposed of non productive or marginally productive leases. Accordingly, the leases and related well costs were written down to an estimated realizable value of $45,550 resulting in a write-off of $1,103,526 in respect of lease and related well costs and deferred development and other expenditures.

5. DEFERRED DEVELOPMENT AND OTHER EXPENDITURES - HELIUM LEASES - $3,069,696

The Company's helium leases and related costs in the Swift Current area of Saskatchewan include the following:

Lease Costs	Balance 1969	Transactions during the year	Balance 1970
Leases (250,000 old shares at $2 per share)	$ 537,836	$ (37,836)	$ 500,000
Well equipment, at cost	25,820		25,821
Intangible drilling costs	313,113	1	313,113
Plant site costs	11,891		11,891
Plant design costs	206,033		206,033
	1,094,693	(37,835)	1,056,858
Deferred development and other expenditures			
Development			
Helium leases, Saskatchewan			
Geological reports and fees	$ 111,388	$ 730	$ 112,118
Engineering fees	54,491	—	54,491
Lease rentals	187,187	15,482	202,669
Well development	199,122	—	199,122
Licenses and miscellaneous	8,488	—	8,488
Less cost of dry holes written off	(145,231)	—	(145,231)
	415,445	16,212	431,657
Administrative and other			
Salaries	330,121	10,446	340,567
Professional services	177,970	53,944	231,914
Travelling	180,290	5,860	186,150
Office and accounting	324,120	8,625	332,745
Printing and advertising	64,883	345	65,228
Management, stock transfer and listing fees	132,982	38,071	171,053
Interest and other financial expense	315,176	39,667	354,843
Debenture interest	44,397	—	44,397
Amortization of debenture discount	7,900	—	7,900
Amortization of debenture financing expense	32,370	—	32,370
	1,610,209	156,958	1,767,167
Less interest income	(125,965)	—	(125,965)
Less administrative and other expenses on oil and gas leases written off (Note 4)	(60,021)	—	(60,021)
	1,424,223	156,958	1,581,181
Total deferred development and other expenditures	1,839,668	$ 173,170	2,012,838
	$2,934,361		$ 3,069,696

The recoverability of the Company's investments in the Saskatchewan helium properties is dependent upon development of a suitable market and construction of the required production process facilities.

Under Canadian income tax law the Company had approximately $2,000,000 in intangible development costs available at December 31, 1970 to be carried forward against future taxable income.

6. LOANS FROM SHAREHOLDERS - $234,586

Certain shareholders have provided the Company with operating funds on an interim basis. These loans bear interest ranging from 0 to 7% per annum.

7. CAPITAL STOCK AND REORGANIZATION

During 1970, supplementary letters patent were issued to consolidate all the 9,885,588 issued shares of the Company without par value into 988,558 shares without par value on the basis that each ten of the said issued shares shall become one share; increased the authorized capital of the Company by creating an additional 2,897,030 shares without par value ranking on a parity with the existing 2,114,412 unissued shares and 988,558 consolidated issued shares without par value of the Company; and changed the name of the Company from The International Helium Company Limited to Mineral Resources International Limited.

During 1970, a reorganization of the Company took place whereby the 6% sinking fund debentures, the 7% convertible subordinated debentures, loans from shareholders and others, and promissory notes, together with all interest accruing and unpaid on these obligations up to April 1, 1970, were exchanged for shares of the Company on the basis of one new share for every $5 principal and interest. Under the terms of the reorganization, indebtedness of the Company aggregating $10,262,164 (including accrued interest) was exchanged for 2,052,433 new shares of the Company.

In addition, contributed surplus of $128,000 which represented the value attributed to 256,000 donated shares of the Company's capital stock was closed to the deficit account.

Issued capital stock is summarized below:

	Shares		Amounts	
	1969	1970	1969	1970
For assets	8,583,228	858,322	$10,774,192	$10,774,192
For cash	1,264,027	126,403	1,578,668	1,578,668
Conversion of debt	38,333	2,056,266	115,000	10,377,164
Balance December 31	9,885,588	3,040,991	$12,467,860	$22,730,024

8. STOCK OPTIONS

On April 4, 1968, the Company granted Mr. V.V. Jacomini, an engineer and an expert in sulphur mining, an option to purchase 100,000 old shares of the Company's capital stock at $2 each, exercisable in whole or in part for a period of five years commencing in 1968. No options have been exercised to date.

During the year, the company granted an option to C.F. Agar for 100,000 new shares of the company at and for a price of $3 per share to be exercised over a period of five years at a rate of 20% per year.

At present, management is reviewing both option agreements.

9. EXTRAORDINARY ITEMS

Development costs in "La Dicha" properties written off - ($145,917)

The company entered into an option agreement to acquire 49% of the shares of a Mexican company to be incorporated under the name of Minera La Dicha. The company expended a total amount of $145,917 on payments required by the option agreement and development expenses. Subsequent to incurring these costs, it was decided that the property did not warrant further expenditure and consequently all expenses have been charged against 1970 income.

Loss on investment in "Compania Minera La Ninita" - ($67,172)

Management decided that the mineral claims held by this company did not justify the expense required to maintain the properties in good standing. Consequently, no amounts were expended on behalf of these properties during the year and title has been allowed to lapse.

Gain on sale of Pembina property - $280,369

The company disposed of its interest in the Pembina Oil Field property of Alberta for a cash consideration of $400,000. After deduction of all costs incurred to effect the sale, the net gain of $280,369 was credited to income of the current year.

10. COMMITMENTS AND SUBSEQUENT EVENTS

Agreements with Azufres Nacionales Mexicanos, S.A. de C.V.

Under an agreement with Azufres Nacionales Mexicanos, S.A. de C.V. the Company is committed to provide an additional $168,856 for operating capital upon request from the Board of Administration of that company. It has also been agreed that the Company will arrange financing on normal commerical terms for a sulphur extraction plant to be approved by the Board of Administration. The Board of Administration has agreed to defer any additional payments on this commitment during the period the properties are being carried on a maintenance basis.

Acquisition of shares of Brussilof Resources Limited

Reference should be made to Note 2 to these financial statements for particulars of this commitment.

11. SALARIES PAID TO DIRECTORS AND SENIOR OFFICERS

Salaries of $36,400 were paid to directors and senior officers of the Company.